

# Annex G

## Changes to English Local Government Capital Finance Systems

Between the mid-nineteenth century and 1972, local government capital finance remained much the same with only minor amendments to its detail. Capital projects were financed by government grants, revenue, sales of capital assets or loans. Central control operated only on the loans. A local authority needed a sanction in order to use a loan, first giving approval for the project itself and secondly authorising the use of a loan. Loans were available from a variety of sources; the Public Works Loan Board (PWLB) was a major source.

- 1933 Local Government Act. Consolidated the legislation of the previous 50 years. Set out the type of expenditure which could be financed by borrowing (effectively anything a Minister considered proper) and detailed types of borrowing open to local authorities.
- 1945 The Local Authorities Loans Act. Virtually all borrowing had to come from the PWLB until 1952.
- 1955 The PWLB became lender of last resort.
- 1963 Controls were imposed on temporary borrowing. Access to the PWLB was relaxed. The Local Government (Financial Provisions) Act allowed authorities to borrow by issuing bonds.
- 1970 Capital expenditure was dealt with in three classes. Those in the Key Sector, covering the great majority of services, continued to require specific loan sanction; the Subsidiary Sector had general consent to borrow; and the Locally Determined Sector had block borrowing approval.
- 1972 The Local Government Act consolidated all previous legislation into one act but made no significant changes to the system.
- 1976 The Layfield Committee on Local Government Finance concluded that current arrangements were not conducive to proper planning, management and control of local authorities' capital programmes.
- 1981 New system set up under the Local Government, Planning and Land Act 1980. Capital expenditure was defined and controlled through annual capital expenditure allocations. Expenditure was monitored quarterly from 1978. Limits on capital expenditure were set partly by reference to a prescribed proportion of an authority's capital receipts.
- 1986 The government published a Green Paper, Paying for Local Government, which considered ways of improving the system.
- 1990 Part IV of the Local Government and Housing Act 1989 introduced the broad framework of the present capital finance system. Detailed provisions were set out in regulations. The main effect was to control capital expenditure funded by borrowing (and all other forms of credit) through the issue of credit approvals. The spending of capital receipts was regulated by the requirement for authorities to set aside part of their receipts as provision for credit liabilities.
- 1995 The Local Authorities (Companies) Order 1995 extended the system to the finances of companies controlled or influenced by local authorities.

- 1997 The Local Authorities (Capital Finance) Regulations 1997 consolidated the changes to the system made since 1990 and contained new provisions to encourage the use of the Private Finance Initiative. A Guide to the Local Government Capital Finance System was published (available on request from DTLR)
- 1998 The Capital Finance Regulations were amended for most non-housing capital receipts, from 1 September 1998 removing the requirement for authorities to set aside part of the receipts.
- 2000 In 1998, the White Paper *Modern Local Government - In Touch with the People* announced a review of the capital finance system. A consultation paper *Modernising Local Government Finance: A Green Paper* was issued in September 2000. It suggests replacing the existing credit approval system for controlling capital expenditure with a prudential approach to determine what is affordable.